

Is Africa on the Move?

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Abstract

Today's official conventional wisdom is that Africa is "on the move." A new generation of businesslike leaders is emerging. They are introducing political and economic reforms, creating opportunities for foreign trade and investment. Consequently, African economies are growing stronger and more competitive. The optimism is overstated. There continue to be many barriers to *sustained* development in the region. Democratic experiments are underway, but they are fragile. Regarding market-based economic reforms, a large gap separates words from deeds. The resulting lack of credibility deters private foreign capital and local investment. Instead African countries have come to depend increasingly on foreign aid. Greater headway will be made when African governments start creating the same conditions that investors find elsewhere in the world.

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Africa is moving forward again on the economic front. After years of setbacks, growth rates are rising, as political and economic reform sweeps the continent. Statist economic policies and non-representative government are giving way to more dynamic and inclusive economic and political arrangements. This, at least, is the current received wisdom in the international development community.

President of the World Bank James Wolfensohn, for example, reports in his 1997 address to the Board of Governors, "real progress in Sub-Saharan Africa, with new leadership and better economic policies."¹ Wolfensohn's remarks echo those of Michel Camdessus, Managing Director of the International Monetary Fund, at the 1996 annual meeting of the World Bank and the IMF, where he said: "Africa, for which so many seem to have lost hope, appears to be stirring and on the move."² Evangelos Calamitsis, Director of the IMF's Africa Department, makes a similar claim that "Africa's recent economic progress has been encouraging."³ The upbeat official diagnosis of African economic prospects is captured in the title of an article, "Africa on the Move," published in this journal in 1997. The authors, Callisto Madavo and Jean-Louis Sarbib, are both Vice Presidents for Africa at the World Bank.⁴

But is the official optimism warranted? Are Africa's prospects as bright as the managers of the Bank and Fund claim? Hopefulness has its uses, but so does realism. And the reality about Africa is far less heartening than Wolfensohn, Camdessus, and the rest admit -- an assertion we will establish in this article. Ours is not a quibble about whether Africa's glass is "half full" or "half empty." Despite recent economic improvements, we see profound impediments to economic recovery and *sustained* development in that region. As our point of reference, we take the paper by Madavo and Sarbib in *The SAIS Review*. We focus on it because Madavo and Sarbib powerfully summarize the official consensus of "cautious optimism" about Africa. Wary skepticism is more in order.⁵

"Africa on the Move" - The Main Arguments

Madavo and Sarbib make four main points. First, they see greater social stability and freedom from armed conflict in Africa. Central to this stability is the emergence of a new generation of African leaders: "committed, qualified, and nonideological." Once heavy-handed and corrupt, the new model of leadership is no-nonsense, accountable pragmatism.

Second, they see a dramatically improved policy environment allegedly established by the new leaders. Better policies have given impetus to the different types of private resource flows to Africa. These consist of foreign direct investment (with management control), portfolio equity flows (without management control), and private loans. The first, which usually entails setting up new, externally controlled enterprises, has been the most important during the 1990s. The other two types of financial flows, though small, are showing some increase for some countries.

Madavo and Sarbib's third point is that the development assistance community, especially the World Bank Group, has been promoting Africa's economic revival. Foreign aid is critical in closing the gaps in financial markets that inhibit private investment. Further, the Bank, as the largest development institution that operates in Africa, has taken the lead in urging African

governments to reform their economic policies.

The fourth point is that improved economic performance results from these changes. The new leadership, new policies, and additional foreign assistance and policy advice are supposed to have produced more rapid and equitable growth in Africa.

We analyze each of these four points below, starting with the last one that Africa's economies are getting stronger and more competitive.

Economic Performance in Africa

Is Africa on the move? *Some* parts of *some* economies in Africa are making progress in raising incomes, creating jobs, expanding exports, educating children, and rebuilding basic infrastructures. But these are the exceptional cases, not the norm. Piecemeal improvements in Africa should not be allowed to obscure how far the region as a whole has been marginalized within the global economy. Madavo and Sarbib declare that "Africa will develop at its own pace and in its own way." That is not a prescription for progress. Africa tried doing things its way over the last three decades, and the results were disastrous.

During this period, the rest of the world moved beyond Africa in almost every measurable dimension of material and social progress. In 1980, for instance, the combined imports and exports of sub-Saharan Africa were \$174 billion, or 3.6 percent the world total. Corresponding data for 1995 were \$188 billion and 1.5 percent. The income share showed a similar decline. The GDP of sub-Saharan Africa in 1980 was \$293 billion, or 2.7 percent the world total. In 1995, Africa's GDP was \$297 billion, or 1.1 percent the world total.

The financial disruptions in Asia in 1997 provide a more recent sign of how peripheral Africa has become. With all the turmoil, Africa has neither received nor lost much in the way of foreign flows. The former shows international investors do not see Africa as a safe haven for their portfolio investments; the latter indicates that few of them had enough at stake in Africa to make a mass withdrawal of resources worth their while.

Improved Leadership

The "new generation" of African leaders is neither as committed nor as pragmatic as Madavo and Sarbib claim. The forces of Laurent Desire Kabila that swept Mobutu's rabble from power in the former Zaire are widely alleged to have left a string of mass graves in their wake. The election of Charles Taylor as President of Liberia shows merely that voters who are tired of slaughter and disruption will vote for its perpetrator lest the slaughter continue.

The only unambiguous example of an enlightened leader in Africa is Nelson Mandela -- and he is about to retire.⁶ The ranks quickly thin out once leaders are sorted according to their commitment to reform, their democratic credentials, and their honesty. For every Isaias Afwerki who may provide some hope for new leadership in Eritria, there is a General Sani Abacha in Nigeria who

practices a non-democratic, non-progressive style of personal rule. And several old-guard leaders continue to hang on, too, such as Daniel Arap Moi in Kenya or Robert Mugabe in Zimbabwe. These autocrats, and their younger counterparts, show little appetite for openness, accountability, or practicality.

Better policies

Africa's governments are not working as hard as Madavo and Sarbib imply to improve their economic policies and institutions. No doubt noteworthy changes have been made in some countries with respect to macroeconomic stabilization, privatization, tax reform, deficit reduction, and democratization. Yet, a large gap separates what these governments say they will do and what they accomplish. The rhetoric is liberalization; the reality has been far less ambitious. In Zimbabwe, to take one example, budget deficits and land disputes prolong the economic slide in what should be one of Africa's most prosperous countries.

Reforms in Africa have been highly selective. "Opening up" has not implied an "open door." African governments are failing even to meet the conditions agreed under the World Bank's structural adjustment programs.⁷ That includes "star performers" such as Ghana and Zambia, which have taken steps backward, undoing bold initial strides. Ghana began its reform effort in 1983. It has subsequently received more than \$6.5 billion in foreign assistance, while doubling its foreign debt from \$2.8 billion in 1986 to nearly \$5.9 billion in 1995. Yet Ghana's GDP has managed to grow at an annual average of only 1.1 percent per capita over the last fourteen years. Zambia's record is equally undistinguished. Since its return to democratic rule in 1991, Zambia has received more than U.S. \$5.5 billion in foreign assistance. Its real GDP has expanded by a meager 0.3 percent per year over the same period. After gaining a record \$1.3 billion in support from the International Monetary Fund in December 1995, the country has effectively failed to comply with the IMF program.

Many development economists have held that latecomer countries could catapult themselves to rapid growth and development by building upon the advances made elsewhere. The presumption, however, is the latecomers have (or can create) a progressive social and institutional setting. So far, only Botswana and Mauritius have created such a setting in Africa. These countries, however, were already on the move before the current enthusiasm for the region's prospects emerged.

Madavo and Sarbib emphasize the role of foreign direct investment. Attracting multinational corporations requires financial reform plus consistent public policies, a stable macro-economy, and evidence of responsible governance. With anything less, foreigners (and locals, too) will remain unconvinced the governments are serious about sustaining good business conditions. They will take advantage of the global reach, convenience, speed and low relative cost of financial transactions and continue to move their wealth abroad or keep it there.

True, the nominal return on foreign direct investment in African countries is high, but that does not make such investment attractive. Madavo and Sarbib report that between 1990 and 1994,

foreign direct investment in the region earned between 24-30 percent, compared with 16-18 percent for all developing countries. Such comparisons mean nothing unless we allow for differential risks. When multinational corporations adjust for political uncertainty, small markets, liquidity effects, transport and transaction costs, investments in Africa tend quickly to lose their appeal.

While foreign direct investment is an important potential source of economic growth, that does not make mobilizing and efficiently using domestic resources less important. In the Pacific Rim, most of the investment to support growth was raised internally. International capital was drawn to the fast-growing Asian countries when conditions induced locals to invest as well. The same is true in Botswana and Mauritius in Africa, where the rate of gross domestic savings has been 32 percent and 24 percent of GDP in the 1990s (the average for Africa is only 16 percent of GDP). Why should foreigners put money in countries when their citizens do not?

Accordingly, Madavo and Sarbib's message about capital flows gives only half the story. The first part, which they stress, is that Africa is changing in ways that give investors from abroad some potentially attractive financial and commercial opportunities. The second part, which Madavo and Sarbib ignore, is that for Africa to attract foreign investment, governments must induce local asset-holders to expand their stakes as well.⁸

The Role of Aid Donors

One feature of Africa's economic situation is the extent to which most countries have become "wards of the international community," to use Paul Krugman's term.⁹ World Bank data show foreign aid to Africa was 13.3 percent of regional GNP in 1990 and 16.3 percent of GNP in 1994 (the most recent year available). Extraordinarily large aid might be justified occasionally to avoid precipitous adjustment to a sudden drop in exports or jump in import costs. However, most African countries are now well into their second decade of World Bank-sponsored structural adjustment. With little apparent thought for the dynamic consequences, the World Bank and other donor agencies have now become permanent "gap-fillers" in Africa. They have evolved a mutually convenient relationship with African states, but it is not a constructive one. The donors have resources they need to dispense; the recipients naturally can find ways of absorbing these resources. Little incentive exists for either party to work to end their reliance on each other.

Several questions arise. Are private capital flows to Africa so low because official flows are so high? Or, is it the reverse? Will official flows continue at current levels (approximately \$11 billion per year for Africa as a whole) if private flows increase? How would a rise in private capital modify the so-called "gap-filling" role of official development assistance? Yet, to ask these questions simply raises others.

Africa is often portrayed as the last frontier for private investors. However, simultaneously, the region also contains the last major group of countries that provide a compelling rationale for the continued existence of the World Bank's International Development Association (IDA) soft loan window, and of many other aid agencies (including their associated non-government

organizations). Rapid growth and development in this last frontier would threaten the existence of literally hundreds of aid-related entities. How many of them plan to disengage from Africa as the flow of private capital increases?

Few African governments want aid to stop. The short-term benefits are too convenient: governments need to compress their expenditures less stringently; collect their taxes less diligently; and apply monetary measures designed to mobilize local resources less intensely than would otherwise be necessary. Regimes are spared from taking measures that would upset key members of their (usually narrow) constituencies. What incentive is there for them to sustain their economic reforms if doing so leads to a decline in official aid?

A further problem is the World Bank behaves as if financial assets are superabundant when dealing with Africa. It provides IDA credits at terms unrelated to the opportunity cost of capital. Sadly, these soft money credits to Africa have done little over the last three decades to alleviate poverty, stimulate growth, or promote development. The two countries in Africa that have made sustained headway over the last three decades are largely independent of the World Bank. Botswana received no net official development assistance from multilateral donors in the 1990s; Mauritius received the equivalent of only 1.1 percent of its GDP.

The fact is capital is being squandered in Africa, and much of the waste is institutionally determined. Freed of having to pay a competitive price for loans (or to live up to the conditions to which they agree in return for credit), African governments face fewer restraints when they act imprudently. One example will make the point. Billions of dollars worth of food aid has been provided to Africa--to make up shortfalls in food supplies that African governments have themselves helped to create by overtaxing the agricultural sector. No wonder the Bank's own research shows its African projects return much less than projects in other regions.¹⁰ When Senator Jesse Helms (not our favorite politician) describes aid to Africa as money "down a rat hole," it is hard to find evidence from the official loan portfolio to rebut his point.

Can the World Bank at least use its leverage to persuade African governments to follow more reasonable, effective policies? The historical record and the shifting agenda of the Bank suggest the need for caution. During its decades of engagement in Africa, the Bank has held many, often fleeting views of what is important for development. It has come a full circle from the promotion of planning to privatization and government disengagement to support for selective government reengagement.

For instance, we need only recall that as the 1980s began, the Berg Report (so-called for its principal author) was meant to spur the actions needed to "accelerate development in Africa."¹¹ Three years later, the Bank's focus shifted to moving Africa "toward sustained development."¹² Two years after that the Bank sought ways to finance "adjustment with growth in Sub-Saharan Africa."¹³ Just three years later, the emphasis was on taking Africa "from crisis to sustainable growth."¹⁴ Finally in 1994, the Bank looked optimistically to the "road ahead," though by its own assessment few African governments had made the reforms needed to move their countries onto sustainable growth paths.¹⁵

Other development agencies have fared no better with their policy advice. This is true of the proponents of "heterodox" or "alternative" programs of structural adjustment, such as the Organization of African Unity and the United Nations Commission for Africa.¹⁶ The special session the General Assembly of the United Nations held in 1986 to examine the "critical economic situation in Africa" produced many similar recommendations--with equally frustrating results.¹⁷ Oxfam's highly publicized critique of the World Bank and IMF in 1995 added little substance to the debate about an alternative to adjustment.¹⁸

Changing perceptions of the problems facing developing countries are not to blame. Development is path-dependent and learning should always be a prominent part of the process. Moreover, few observers question the thoroughness and professionalism with which the World Bank analyzes development issues. They do doubt whether any clear link exists between the lessons that the Bank's analyses provide and its subsequent efforts to encourage lasting growth and development.

For too long, the World Bank (and other donor agencies, too) has reassured itself with the idea that it is serving its "partners in progress," though its "partners" often have been kleptocratic thugs whose actions are antithetical to any form of progress.¹⁹ A more constructive approach would be to address formally the degree to which the growth-inhibiting, wealth-dissipating, and human capital-destroying activities of old guard leaders are blocking progress in Africa. If the Bank needs accessories to work with, it should confine its energy and skill to the new leaders who truly are committed to progress.

A Way Forward?

If, as we believe, Africa's economic outlook remains clouded, what changes might lift those clouds? Are there actions development institutions and African governments can take to get Africa really moving? They might begin with the following steps:

First, donor agencies and African governments should fully review the dynamic effects of their current mutual dependence. Recent discussions have focused on finding "debt exit" strategies for African countries. The HIPC initiative (Highly Indebted Poor Countries) is an example. What is just as urgently required is an "aid exit" strategy for Africa.²⁰ Aid flows are so large, so central to the operations of most African governments, and so advantageous for donors and these governments alike, they discourage either party from making headway toward sustained growth and development.

Second, African policy makers have to begin to understand the limits imposed on their policy choices by economic globalization. Like it or not, these countries belong to a world marketplace for skills, resources, and finance. No one has to keep his or her capital in Africa; no one can be forced to invest there. A down-to-earth approach to globalization requires African countries to determine how they can link themselves effectively to international trade and commerce. As a start, such a strategy would require creating the same conditions investors (both local and foreign)

can find anywhere else they might consider committing their skills, resources, and finance. Such conditions include macroeconomic stability; predictable and efficient institutional arrangements; ease of entry and exit; a functioning legal system; and transparent, accountable, governance.

Third, African policy makers should honestly and realistically assess their spending priorities. Aside from Botswana and Mauritius, all African governments are over-stretched. They require retrenchment in some domains and reorientation in others. To reduce disruption, administrative reform should be done in ways that enable the public sector to focus its limited resources on the crucial social tasks that contribute to rapid economic growth and development. Debate continues over what the public sector should do.²¹ Nevertheless, whatever the public sector does, no one questions that it should do those things efficiently. Public sector activities in Africa that produce widespread waste are easy to find. A partial list includes: excessive official travel, lavish representation abroad, padded military budgets, consumer subsidies, public enterprise losses, restrictions and regulations that undermine enterprise and innovation, arbitrary legal requirements that raise business costs, deficit financing, controlled prices, fixed interest rates, overvalued real exchange rates, subsidized credit, and tariff restrictions that prevent competition.

Fourth, the development institutions, particularly the members of the World Bank Group, should begin dealing with the institutionalized waste inherent in their activities. They should devote their attention to the few areas that are critical for modern growth and development -- education, health, infrastructure, effective macroeconomic management, and international competition. Long term consistent support for these items is required; provision of international welfare is not.

Is this the counsel of perfection? Have we challenged the fiction of an Africa "on the move" with the even more fantastic notion of increasingly self-reliant growth and development? We think not. Serious proposals are being made for getting African countries off aid. The scheme recently presented by Eliot Berg envisioned a structured program of donor/country cooperation that phased out all extraordinary assistance over a fixed period.²² A more radical approach was set out by the Harvard Institute for International Development with three ideas: deep debt reduction for African countries that actively take on fundamental reform; extraordinary, but time-bound, support for the adjustment transition; and broad-based international support for public goods activities (health, education, environment, infrastructure).²³

With the recent celebrations associated with the fiftieth anniversary of the Marshall Plan, we would like to revive interest in one of its key principles, namely "self-help". This idea used to be taken seriously by aid agencies.²⁴ For our part, we do not see sustained growth and development in Africa as being out of reach. Recall how three decades ago, Asia--not Africa--was popularly designated the basket case. Over the period 1945 to 1970, Africa could count some of the world's most rapidly growing economies. The challenge for Africa today is to create again a setting that nourishes growth and development rather than destroys it. To get Africa really on the move requires many hard choices that neither the donor community, especially the World Bank, nor African governments have so far been prepared to make.

Endnotes

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- ¹ James D. Wolfensohn, *The Challenge of Inclusion*, Address to the Board of Governors, Hong Kong, China (23 September 1997), p. 5. In this paper, for convenience we use the term Africa to refer to the 48 countries that lie south of the Sahara.
- ² Michel Camdessus, Address to the Board of Governors of the IMF, Washington, DC (1 October 1996).
- ³ "Calamities on Development in Africa," *IMF Survey* (7 July 1997): 201.
- ⁴ Callisto Madavo and Jean-Louis Sarbib "Africa on the Move: Attracting Private Capital to a Changing Continent" *The SAIS Review*, vol. 7, no. 2 (Summer-Fall 1997): 111-126.
- ⁵ Yet, even with all the recent changes, Madavo and Sarbib note "root problems" such as high interest rates and inflation, artificially high exchange rates, barriers to trade and investment, low output and productivity, harsh tax and regulatory regimes, crippling debt, and deeply embedded corruption.
- ⁶ Apart from Leopold Senghor, of Senegal, who recognized that African leaders should move on before their continued presence creates irreversible economic damage, no African president has produced anything like the good will, vision, and compassion of Mandela. His inauguration speech has been aptly labeled "historic." Its message could serve as a creed for all African leaders. N. Mandela, "Let Freedom Reign" Speech Delivered at Inauguration 10th May 1994, reprinted in ed. B. MacArthur, *The Penguin Book of Historic Speeches* (London: Penguin Books).
- ⁷ M. Gallagher, "A Scorecard of African Economic Reforms" *The Fletcher Forum of World Affairs* vol. 15 (Winter 1991): 57-76 S. P. Schatz, "Structural Adjustment in Africa: A Failing Grade So Far" *The Journal of Modern African studies* vol. 32, no. 4, (December 1994): 679-692; L. Taylor, "Editorial: The Revival of the Liberal creed -- the IMF and the World Bank in a Globalized Economy" *World Development* vol. 25, no.2 (1997): 145-52.
- ⁸ Many of these points are made by Paul Bennell, "Foreign Direct Investment in Africa: Rhetoric and Reality," *The SAIS Review*, vol. 7, no. 2 (Summer-Fall 1997): 127-39.
- ⁹ Paul R. Krugman, "Developing Countries in the World Economy," *Daedalus*, "A World to Make: Development in Perspective" vol. 118, no. 1, (Winter 1989): 184).
- ¹⁰ P. Collier and J.W. Gunning, "Explaining Economic Performance" Working Paper Series 97/2, Centre for the Study of African Economies, University of Oxford (1997): 27-31.
- ¹¹ *Accelerating Development in Sub-Saharan Africa: An Agenda for Action* (Washington D.C.: The World Bank, 1981).
- ¹² *Towards Sustained Development in Sub-Saharan Africa* (Washington D.C.: The World Bank, 1984).
- ¹³ *Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90* (Washington D.C.: The World Bank, 1986).
- ¹⁴ *Sub-Saharan Africa: From Crisis to Sustainable Growth A Long-Term Perspective Study* (Washington D.C.: The World Bank, 1989).
- ¹⁵ *Adjustment in Africa: Reforms, Results and the Road Ahead* (New York: Oxford University Press, 1994).
- ¹⁶ *What Kind of Africa by the Year 2000?* Proceedings of the Monrovia Symposium (Addis Ababa: Organization of African Unity, 1979); *The Lagos Plan of Action for the Implementation of the Monrovia Strategy for the Economic Development of Africa* (Lagos: Organization of African Unity, April 1980); *African Alternative Framework to Structural adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP)* (Addis Ababa:

United Nations Economic Commission for Africa and Organization of African Unity, 1989).

¹⁷ *Report on the Preparatory Committee of the Whole for the Special Session of the General Assembly on the Critical Economic Situation in Africa*, United Nations 13th Special Session Supplement No.1(A/S-13/4) June 1986.

¹⁸ Oxfam America, *The Impact of Structural Adjustment on Community Life: Undoing Development* (Boston: March 1995).

¹⁹ That African countries are “partners” in any genuine sense is wishful thinking. While foreign aid diplomacy demands such language, no one should be fooled that the relationship between the international donors and African countries is a partnership as the word is typically understood.

²⁰ A number of observers flatly argue that aid has been totally ineffective and should cease, such as B.T. Johnson, “Economic Freedom, Foreign Aid, and Economic Development” Ch. 2 in (eds.) K.R. Holmes, B.T. Johnson, and M. Kirkpatrick, *1997 Index of Economic Freedom* (New York: The Heritage Foundation and Wall Street Journal, 1997).

²¹ This debate has been revisited with the recent *World Development Report* entitled “The State in a Changing World” (Washington D.C.: The World Bank, 1997) and the survey in *The Economist* “The Future of the State” (20 September 1997).

²² See E. Berg, “Dilemmas in Donor Aid Strategies” Paper prepared for Workshop on External Resources for Development Netherlands Economic Institute, Rotterdam, May 13-14, 1996.

²³ A New Partnership for Growth in Africa, Harvard Institute for International Development, Cambridge, February 1997.

²⁴ United States Department of State, “U.S. Economic Aid to Africa 1950-64” *Africa Report* (December 1964); D. E. Bell, “The Quality of Aid,” *Foreign Affairs* (1965): 601-607.